

Chapter 3: Wells Fargo: The Stage Coach Went Out of Control : 3-3 Situation

Book Title: Business Ethics: Ethical Decision Making and Cases

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3-3 Situation

September 2016 marked the unfolding of Wells Fargo's entanglement in a widespread scandal that would implicate several high-level executives and thousands of employees. On September 8, the CFPB, the Los Angeles City Attorney, and the Office of the Comptroller of Currency levied a massive \$185 million fine against Wells Fargo, claiming the firm had opened up and/or applied for more than 2 million customer bank or credit card accounts without permission from the customers. Furthermore, a bank official acknowledged that the company had terminated over 5,300 employees in relation to the allegations. Wells Fargo released a statement taking responsibility for the debacle.

Five days following the initial outbreak, the bank announced that it would be ending its controversial employee sales goals program effective January 1, 2017. Subsequent investigations revealed that controversial sales goals most likely encouraged employees to open accounts without customers' permission and knowledge. Employees had continually engaged in fraudulent activities such as opening up fake bank accounts and falsifying signatures in order to satisfy sales goals and earn financial rewards under the bank's incentive-compensation program. The CFPB claimed Wells Fargo imposed such goals on staff to become the leader in "cross-selling" banking products. In other words, they were given incentives for selling customers additional products. While offering incentives for additional selling is certainly not unusual, evidence shows that Wells Fargo had unrealistic sales goals and did not have systems in place to ensure employees were actually engaging in selling. Many Wells Fargo employees had adopted the teleological perspective that the ends (higher incentives) justified the means (fraudulent activity).

A day after the bank announced it would eliminate its controversial incentive program, the Federal Bureau of Investigation and federal prosecutors in New York and California began probing the bank over the alleged misconduct, which opened the door to possible criminal charges. By September 20, Wells Fargo's Chief Executive, John Stumpf, appeared in front of the Senate Banking Committee, where Sen. Elizabeth Warren called on him to resign and said he should face criminal charges. Furthermore, Sen. Bob Corker claimed Stumpf would be engaging in "malpractice" if the bank did not "claw back" money that the company had paid to executives during the period that the accounts were being opened without customers' permission. The rest of the month would put Wells Fargo through investigations, numerous lawsuits, employee and consumer backlash, and lengthy lectures from both political parties. October 12, over a month following the initial break of the scandal, marked the retirement of the CEO and Chairman Stumpf, effective immediately. Tim Sloan, an employee of the company for 29 years, took over as CEO, and Stephen Sanger became board chairman. Sloan was quoted as saying that Wells Fargo's biggest priority would be to reestablish trust in the bank.

The attempt to reestablish trust occurred almost immediately. Wells Fargo began running an advertisement campaign on October 24 that was evocative of its long history in serving banking customers. The ads featured its signature horse-drawn carriage motif and pledged to address customer concerns. However, investigations continued. By November, Wells Fargo disclosed in regulatory filings that the U.S. Securities and Exchange Commission (SEC) was investigating the bank's sales practices. Additionally, the U.S. Department of Justice, congressional committees, California state prosecutors, and attorneys general were also making formal inquiries into the bank's practices. At the crux of the investigations was one question that still needed to be answered: what caused such a well-known, popular bank to engage in such blatant misconduct?

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